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JPRS L/9100

20 May 1980

# Japan Report

(FOUO 13/80)



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## JAPAN REPORT

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POLITICAL AND SOCIOLOGICAL

COMMUNIST PARTY ISSUES MAY DAY APPEAL

OW011033 Tokyo JPS in English 0918 GMT 1 May 80

[Text] Tokyo, May 1, JPS--On the occasion of the 51st May Day, the Central Committee of the Japanese Communist Party issued a May Day appeal, the gist of the appeal follows:

The appeal first emphasizes "the important significance of the establishment of a class-oriented and democratic national center of trade unions." It says, "This year's spring labor offensive indicated that there will be no advances in the struggle to defend the workers' living and rights without fighting squarely against the outrages of big business. To stabilize and improve the people's living is the key point to rectify bias in the economic structure, to break free of the crisis of the Japanese economy, and to promote its democratic reconstruction."

The appeal says that it is also an important characteristic that the established national centers of trade unions have shifted to the line to defend the establishment, the appeal says:

"The results of the wage-hike struggle, which cannot even cover up the price increases, was caused mainly by the established national centers' rightwing line, with an as low as 8 percent wage hike demand, in submission to monopoly capital's wage restraint policy.

The appeal says "for a complete recovery of the spring struggle, too, it is essential to establish a class-oriented and democratic national center of trade unions."

The appeal calls for "opposition to all hegemonism, and dissolution of all military blocs." The appeal calls for "opposition to the Soviet military intervention in Afghanistan, and strongly demands that the Soviet troops withdraw from there rapidly." "The JCP, at the same time, demands that all sorts of interventionist acts, including those of the United States and China," the appeal says, "and calls for international 'sanctions'

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against Iran. It is totally unjustifiable to pose a military threat to Iran, and force other countries to cooperate in 'sanctions.'"

The appeal points out that "the Ohira administration's subordination to the United States is dangerous for the national interests and peace of the world." It goes on to say: "On the occasion of May Day, the day of international solidarity of the workers and the oppressed people of the world, the JCP calls on the working class of Japan to oppose all sorts of hegemonism, to rise up in the struggle to dissolve all military blocs, and to defend the complete national sovereignty of all nations."

The appeal points out that the "The Chinese war of aggression against Vietnam, and the Soviet military intervention in Afghanistan have deeply injured the heart of the working class which regards the socialist future as the ideal of mankind. None can deny the institutional superiority of socialism that has so far achieved up till now, by phenomena stemming from immaturity of the present socialist states. Nor can one erase the prospects that socialism and communism, based on scientific recognition, will build a society in which mankind is truly 'equal and free in human relationship.'"

The appeal concludes by stressing: "The House of Councillors election to be proclaimed one month later is an important political battle to make it the new starting point for an end to the reactionary Ohira government and the Liberal-Democratic Party politics, and to make the 1980's the era of progress and successes of the progressive forces.

"In this election, we must say resolutely three no's--to hegemonism of all countries, to LDP politics, and to the conservative supplementing line of the Socialist, Komei and Democratic Socialist parties-- and to choose definitely the party which struggles for a progressive change in the national administration, based on the three objectives of the progressive movement, to open the way for new perspectives for building a progressive Japan."

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POLITICAL AND SOCIOLOGICAL

OPPOSITION 'COOPERATES' IN UPPER HOUSE ELECTIONS

OW060213 Tokyo THE JAPAN TIMES in English 5 May 80 p 12

[Editorial: "Teamwork for June Poll"]

[Excerpts] With the date of the Upper House election having been set for 29 June, political parties have already named their candidates and drafted campaign platforms. Leaders of three major opposition parties, the Japan Socialist Party (JSP), Komeito and the Democratic Socialist Party (DSP), all started stumping the country last week. Although the official period of campaigning does not start before 6 June when the holding of the election is announced, the battle has been virtually under way.

As with the last triennial event to renew half of the 252-seat chamber, interest is also focused this time on whether the Liberal-Democratic Party (LDP) can return a sufficiently large number of candidates and maintain a majority over the combined opposition strength. The opposition camp is intent on putting a decisive end to the LDP's already tenuous control in the Upper House.

How the battle will turn out depends crucially on the election cooperation planned by the JSP, Komeito and DSP. The three parties have formed an indirect alliance, with Komeito serving as the link between the two rival socialist groups. The JSP entered an agreement with Komeito in January on the broad policy orientation of a coalition government, following a similar pact signed last December between Komeito and the DSP.

Two observations may be made at this stage of the developing "cooperation" among the JSP, Komeito and the DSP. Unless they bury their differences in matters of basic policy and also work closely with one another in the elections, they cannot hope to bring the decades-long LDP monopoly on government to an end. Secondly, if their teamwork cannot survive the June poll, or the current talk of a coalition government proves nothing more than a deal of expediency for just this coming election, they might as well be charged for being less than honest with Japanese voters.

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POLITICAL AND SOCIOLOGICAL

COMMUNIST PARTY ANNOUNCES ELECTION SLOGANS

OW050949 Tokyo JPS in English 0922 GMT 5 May 80

[Text] Tokyo May 5 JPS--The Japanese Communist Party on 5 May announced slogans for the House of Councillors election. The full text of the basic and policy slogans follow:

Basic Slogans

1. [numbers as received] Build new Japan in service to the people in the 1980's.
1. Oppose all manifestations of hegemonism, and defend the national right of self-determination.
1. For international disarmament and complete ban on nuclear weapons. End the vicious circle of military blocs.
1. Bring people's judgment to money-power and corrupt LDP politics in subordination to the U.S. and in service to big business.
1. Break off from the money-power politics giving priority to big business, to take steps for reconstruction of the economy for the service to the people.
1. For considerate administration in defense of the happiness of mothers and children. Give future to youth with life worthwhile living.
1. Oppose malrevision of the public offices election law, the emergency legislation, malrevision of the constitution, the revival of the conscription, to defend freedom of the people and democracy.
1. Bring people's judgment on anticommunist opposition parties alliance, assisting the misgovernment of the LDP.
1. Anticommunist coalition government plan is the way to the alliance with the LDP. Let us promote the Progressive United Front by advance of the JCP.

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1. The JCP is the progressive party at all times and all places. The party of true patriots. Give your votes to the JCP.

1. The Japan-U.S. military alliance is the way to war and intervention. Abrogate the Japan-U.S. Security Treaty, and build a nonaligned neutral and self-defending Japan.

"Three No's and One Choice"

No to the all hegemonism, no to the misgovernment of the LDP, no to the Socialist-Komei-DSP alliance assisting the LD. Open the way for the future of the progressive unity by the advance of the JCP.

"Policy Slogans"

1. Oppose the U.S. policy of strength. Do not follow the Carter administration's operation on Iran.

1. Soviet Union, withdraw troops from Afghanistan. The U.S. and China stop intervention in Afghanistan.

1. Do not make Japan the U.S. base for intervention in the Mideast. Oppose Japan-U.S. joint training, and reinforcement of war potentials of the SDF.

1. Return Habomai and Shikotan islands immediately. Conclude a Japan-Soviet peace treaty, for the return of all Chishima islands.

1. Freeze the public utility charges, and restrain profiteering price hikes, to prevent a re-emergence of the crazy price spiral.

1. Oppose tax increases on the people. Change the tax system favoring big business, and tax reductions for the working people and small business operators.

1. Do not let them cut welfare. For the advance of the people's living by big reductions in military spendings.

1. By wage increases to repel the high prices, to expand the people's purchasing power. Opposition to the working force reducing rationalization. Control the overcrowding work, shorten the working hour, and by public investments on the living basis, to increase employment.

1. Agriculture is the pillar of the people's living, make agriculture payable by guaranteeing prices of product. Do not let them expand "liberalization" which will ruin agriculture.

1. For democratic reconstruction of the fishery, to defend the job and living of small and medium fishermen.

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1. Restrain the high-handedness of big business operators and subcontractors.

1. Break free of energy crisis by independent diplomacy, giving height to the oil producing countries.

1. For considerate politics to the handicapped. Make the year of the international handicapped worthy next year.

1. Ban the industrial political donations, the hotbed of the corrupt politics. All parties must make public the truth of suspicions on their party members of the Diet.

1. The sexual equality in employment, and expand the maternity protection. For an early ratification of the United Nations "Agreement on Abolition of Discrimination on Women."

1. Effect 40-pupil classes in five years. Let us develop pupils' high scholarship, strong bodies, and wholesome sentiment.

1. Oppose the glorification of the imperial instructions to soldiers and the imperials rescript on education. For education loving peace, democracy and life.

1. For complete implementation of the peaceful and democratic clauses of the constitution. Let us defend through freedom and democracy.

1. Oppose company managed and government managed election eerings. Defend freedom of thought and belief of the workers and traders.

1. For the establishment of a national center of trade unions, independent of capital and political parties, to defend the interests and solidarity of the workers.

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POLITICAL AND SOCIOLOGICAL

CHANGE IN NAKASONE'S FACTIONAL POSITION ANALYZED

OW051027 Tokyo THE DAILY YOMIURI in English 3 May 80 p 3

[Article by Raisuke Honda: "Nakasone Sits on the Fence"]

[Text] The Liberal-Democratic Party's (LDP) former secretary-general Yasuhiro Nakasone, so far known as one of the party's antileadership bosses, recently appears intent on deserting the intraparty struggle against Prime Minister Ohira. Along with former premiers Takeo Fukuda and Takeo Miki, Nakasone has often been identified as one of the LDP seniors in opposition to the leadership factions led by Ohira and his ally Kakuei Tanaka.

These days, however, Nakasone has stopped making any remarks critical of Premier Ohira. At a reception held in late April at a Tokyo hotel to mark the publication of his book "In quest of harmonious urban development," Nakasone delivered an hour-long speech but he seemed to refrain deliberately from making anti-Ohira remarks all the while.

Nakasone's "volte-face" has, of course, come as a joy for the Ohira and Tanaka factions, while those in the antileadership camp are frowning at his "opportunism." According to sources close to Nakasone, it goes against his grain to have been outwardly linked hand in hand with Fukuda and Miki since the intraparty power struggle last autumn, after the LDP setback in the general election.

Prior to the 1979 general election, Nakasone had been in close contact with aide to Ohira, committing himself to cooperate with the premier after the election, the sources say. However, Nakasone was obliged to side with the antileadership forces, at least temporarily, because Ohira came severely under fire for the LDP's major setback in the last election, according to the sources.

Nakasone himself recently said: "I'm of course ready to have talks with Mr Fukuda and Mr Miki, if they invite me to do so. I have to work in concert with them to one extent or another. However," Nakasone added, "my position is sheerly different from theirs."

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What did he mean by "difference in positions"?

A senior member of the Nakasone faction explained: "Both Mr Fukuda and Mr Miki have already served terms as LDP executives and premiers. In this sense, they are politicians past their prime."

Nakasone, on the contrary, is an aspirant for the highest post, and he should be careful enough not to be exploited by that too, lest he jeopardize his own chances," the Nakasone supporter said.

Indications are thus that Nakasone is trying to phase out of his anti-leadership stance, so that he can forsake the Fukuda-Miki camp for the leadership factions at any desirable time. Since the Ohira administration is expected to continue for at least another two-year period, Nakasone may well have thought it adverse to his own goal of succeeding Ohira to remain at odds with him. Nakasone may have felt the need of improving relations with Ohira all the more keenly because the next LDP presidential primaries is expected to end in Nakasone being outranked by another would-be successor to Ohira, Toshio Komoto.

Should the LDP suffer another setback in the coming upper-house election, however, Ohira would certainly be obliged to step down. Bearing that possibility in mind, Nakasone appears intent to remain uncommitted on his pro-Ohira stand, enabling him to finalize his posture depending on the outcome of the upper house election.

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'ASAHI' ON OPPOSITION MOVE FOR COALITION TO REPLACE LDP GOVERNMENT

OW051130 Tokyo THE ASAHI EVENING NEWS in English 5 May 80 p 5

[ASAHI SHIMBUN 1 May editorial: "On Coalition Government"]

[Text] While the focus of political interest has been shifting to the 29 June House of Councillors election, the opposition camp has been busily preparing a platform for a coalition government. The aim is to draft an outline of the policies which will be pursued if a coalition government replaces the single-party government of the Liberal-Democratic Party. The result may well influence the outcome of the Upper House election.

Since late last year, two coalition government plans have been agreed upon by the opposition parties--one between the Japan Socialist Party and the Clean Government Party (Komeito), and the other between the Komeito and the Democratic Socialist Party. By making various compromises in the process of formulating these plans, the opposition parties have been hurriedly making preparations to take over the reins of government. Their efforts have been directed principally at narrowing the differences in their policies, rather than at making a direct appeal to the people. Presumably, the latest move of the JSP, Komeito and the DSP, which is being made on the basis of the two coalition government plans, is designed to gain the favor of the people.

Generally speaking, it is an important duty of the opposition parties to act jointly in connection with urgently needed policies which concern the people's livelihood and to press the government and the LDP. This is particularly so when the number of Diet seats held by the ruling party and the opposition parties are almost on a par. Since the Upper House election is approaching, the ruling and opposition parties should make clear what the policy issues are so that the people will be enabled to make a judgment.

We should be well aware of the policy discussions among the various parties since an age of coalition government is inevitable, and it is only right that the various parties should move from making policy adjustments at the party level and try to be more attentive to the needs of the people.

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How will these parties go about doing this? The three parties can hardly escape the charge of being unprincipled if they mechanically combine the two coalition government plans into one. For example, the basic policies of the three parties in connection with the Japan-U.S. Security Treaty, defense and nuclear power generation are very different, and it will be difficult to eliminate these differences at one stroke. Even on the question of administrative reform, the DSP is greatly at variance with the JSP.

A proper coalition government should consist of parties which join to deal with problems of popular concern, and which, at the same time, respect one another's basic doctrines and policies. In connection with the people's standard of living, there are numerous problems which need governmental attention, such as commodity prices, inflation, welfare, medicare and education. There is also the problem of stamping out political corruption, which will have to be done if the abovementioned problems are to be solved.

The opposition parties still have much they can do in the current Diet session in connection with these problems. In preparing their platform, the three parties should criticize themselves for their lack of zeal in connection with these issues and aim at agreement by determining what they urgently need to do and what they are in a position to do.

Since a coalition government formed by the opposition parties is not imminent, the parties should, at the present stage, give priority to the undramatic work of reaching agreement on policies in connection with questions that require immediate attention. If the parties should conspire to make compromises to the extent of distorting their respective principles, the people will consider it a mere device to win votes in the House of Councillors election. The parties will have only exposed the fragility of a coalition that has no substance.

In grappling with the task of creating a coalition government, the opposition parties should spend more time in discussion. In fact, it might have been better if the two coalition government plans had been produced after agreement had been reached on a platform. The reverse procedure has created bewilderment and misgivings among the supporters of the parties concerned.

The DSP has produced a draft of a platform for a coalition government, as has the Komeito, and these are the bases on which subsequent discussions among the opposition parties should be undertaken. It remains to be seen how the JSP, which is, after all, the main opposition party, will react to these proposals and reconcile its principles with reality.

It is also important that the three parties discuss these matters in a way which is easily comprehensible to the people in the consultations that are expected to get under way after Golden Week.

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MILITARY

DEFENSE AGENCY CHIEF SEEKS SDF MODERNIZATION

OWO20345 Tokyo THE JAPAN TIMES in English 1 May 80 pp 1, 4

[Text] Kichizo Hosoda, director general of the Defense Agency, Wednesday instructed top uniformed leaders of the agency to work out details of programs for fiscal 1981, starting next April, to modernize major equipment of the tri-service self-defense forces (SDF) and improve the nation's defense capabilities.

The instruction was made to Gen Goro Takeda, chairman of the Joint Staff Council, and the chiefs of staff of the three branches of the SDF, the air, ground and maritime self-defense forces, an agency spokesman said.

The Defense Agency chief cited, as the major goals for the agency's efforts to beef up the SDF within a relatively short span of time, several steps that call for streamlining of the command setup in the SDF's three branches, and enhancing "operation-wise resilience and sustainability" of air bases and other defense facilities against an armed attack, among others. Particular emphasis was placed on the step to cut headquarters staff as much as possible at various stages of the SDF's chain of command in a bid to produce a surplus of manpower for the first-line units and operational ends of the armed forces which have been perennially suffering from a manpower shortage.

Also emphasized are measures to improve the Air Self-Defense Forces (ASDF) airlift capabilities to procuring a fleet of large transport aircraft. Being proposed is the C-130 Hercules cargo plane, which is one of the mainstay transport aircraft currently in service with the U.S. Air Force and other countries' and forces. The C-130 is capable of laying mines besides carrying paratroopers and heavy cargoes.

These measures are designed to be linked with the agency's recent decision to revise the so-called "medium-term operational estimate" adopted by the agency in 1979. The estimate is to give a guideline for the three branches of the SDF to modernize their major equipment and enhance their combat-worthiness during the period between fiscal 1980 and 1984. But the agency hopes to implement the proposed plans by fiscal 1983, instead of 1984.

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On the basis of the review of the original estimate, the Defense Agency is expected to come out with an interim budgetary request for fiscal 1981 by mid-August. The agency leaders hope to seek a defense budget amounting to some 2.5 trillion yen, up 15 percent over the current fiscal year's level, in spite of the government's austerity policy, informed sources said.

Defense Agency Chief Hosoda assured the chiefs of the air, ground and maritime staff that he would persuade the Finance Ministry to allot enough funds to realize the agency's plan to purchase 12 Karl Gustav recoilless anti-tank rocket launchers, eight 155-mm self-propelled howitzers, one destroyer and two F-1 ground support tactical fighter bombers in the next fiscal year. The funds required by the agency to purchase these weapon systems during fiscal 1980 were all slashed by the Finance Ministry.

Hosoda also instructed the SDF brass to work out plans to extend the span of serviceability of major equipment, including warships and combat aircraft, to reduce the number of first-line weapon systems being worked out and outdated in view of the difficulty in securing enough budgetary appropriations to purchase brand new equipment to replace obsolete ones, according to agency officials.

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ECONOMIC

'NIHON KEIZAI' PREDICTS BUSINESS SLUMP IN FALL

Tokyo NIHON KEIZAI SHIMBUN in Japanese 31 Mar 80 p 1

[Text] Braced by strong exports and equipment investments, the economy has advanced beyond prediction, especially in the past January-March period. But Japan's economy is about to enter a period of second-stage adjustment in the face of the "\$30.00 oil," led by a huge hike in electric and gas rates. While the industries enjoy favorable times because of the price economy, increasing prices have begun to hurt the household economy. The economy is expected to move under momentum from the preceding period until this summer, but a turning point may come in the July-September period, with a mild decline setting in from autumn. The spread among businesses and by industrial types will probably widen, depending on the efficacy of countermeasures. Yet, despite times of high interest rates, equipment investments have increased and exports are favorable partly because of cheap yen. Should U.S. interest rates peak out within a few months and the OPEC general meeting decides against a huge crude oil price hike, the adjustment period for Japan's economy should be shorter than during the first oil crisis. And the economic valleys should not be as profound.

Equipment Investments Riding on Wave

Commented a Ministry of Finance bureaucrat who had been involved in Diet deliberations of the new fiscal year budget since January: "This year has been extraordinary in that the president of the Bank of Japan has been summoned more frequently than representatives from the Small and Medium Enterprises Agency."

Whenever financial controls are tightened, the most frequently asked question in the Diet is "whether the small and medium enterprises are safe." But in the current session, the legislators have all joined in a chorus of "eliminating inflation rather than stressing the economic conditions." Hence, it was the currency watchdog, President Maekawa of the Bank of Japan, rather than the Small and Medium Enterprises Agency director, who has been summoned almost daily to the Diet. A Ministry of Finance bureaucrat had this to say, "It is an indication of the economy improving to the extent where there is no longer need for concern over small and medium enterprises."

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With respect to integrated circuits (IC's), known as the new "staple food of industry" replacing steel, massive equipment investments are being made in the semi-conductor industry. Even Nippon Electric, the largest in the field, has been unable to meet the demand. It has been expanding its Kumamoto plant (Kyushu Nippon Electric) since last year-end at a cost of about 6 billion yen. The plant is shipping the semi-conductor laden containers on All Japan Airway's daily passenger flights to Tokyo's Haneda Airport where the buyers are waiting and scrambling for them. Upon completion of expansion, the production capacity will increase by around 20 percent. But Masau Suzuki, executive director of Kyushu Nippon Electric, says, "Even then, it should have little impact on the current supply and demand situation.

Due to rising domestic demands and exports, increased equipment investments have been noted in virtually all kinds of industries, not limited to the semi-conductor field. A recent survey by NIHON KEIZAI SHUMBUNSHA found that among businesses that reduced equipment investments (construction base) in fiscal 1979, none were in the manufacturing business. In fiscal 1980, the equipment investment programs of total industries should show a 14.9 percent increase over the preceding year (11.9 percent). A Japan Development Bank survey also gives a glowing picture--after 8 years--of increased investments in manufacturing capacity in fiscal 1980.

Chief Director Hisao Kanamori of Japan Economic Research Center, optimistically predicting fiscal 1980 real economic growth at around 6 percent, claims, "Equipment investments are riding on an intermediate rising current. There will be no disintegration barring a major development."

Along with the restored equipment investments, exports are also spurring the "civilian consumption economy." The U.S. economy has been stronger than expected, and Middle East oil producing countries have greatly profited from crude oil price boosts. Abetted also by cheap yen, exports have risen sharply, accounting for a bulk of the real economic growth rate (5.3 percent annual rate) posted in the October-December period of last year. Last year's exports of steel and electrical consumer goods such as vehicles and video tape recorders posted a record high, and they are also doing well this year. In February, exports cleared through customs (dollar base) grew more than 20 percent over last year. And because of cheap yen, the amount of yen netted by export firms have increased, contributing to a great increase in profitability of exports. As a result, the cheap yen kept businesses from having to boost export prices in terms of dollars and compared with American and European nations suffering from a higher inflation, strengthened Japan's competitive position and increased exports. "Now, it seems that Japanese products have captured a dominant place throughout the world," boasts a trading firm (Survey division, Mitsui & Co, Ltd).

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There is the example of a machine tool manufacturer which until recently had been forced to discharge its workers or sell off its property, but staged a comeback as a result of the recent favorable export conditions and is now even acquiring other manufacturers through merger.

The firm involved is Osumi Iron Works, a major manufacturer of NC (numerical control) lathe, with main offices in Nagoya City. It renamed the company which it acquired on 1 April as "Osumi Howa Machinery" and plans to expand its operation. It says with composure that it has "received enough orders for a 2-year period," consisting mostly of exports to the United States.

The operating rate of the manufacturing industry has surged because of increased exports coupled with accelerated production to beat the electric rate hike taking effect from April. According to a Mitsubishi Bank estimate, most plants were in full operation, attaining an operating rate of 91 or 92 percent in the January-March period and nearing the peak (about 95 percent) achieved just before the first oil crisis.

Impact on Household Economy

In contrast to businesses enjoying an upswing brought on by the "price economy" combining inflation and cheap yen, the household sector has become stagnant, having been dealt a direct blow by inflation.

A saleslady in the wearing apparel counter of an outlet of Ito-Yōkado--which posted the second highest sales volume in the retail industry--and located in a mammoth Tokyo housing complex lamented, "Lately, underwear has not been selling. There are no buyers, even with sharply marked down prices."

Until recently, people would purchase matching underwear when buying fashion apparel, but no longer. This phenomenon is known in the trade as "clearing out the supply in the dresser," in reference to the growing trend to cut back on underwear purchases until those tucked away in the dresser are used up.

The consumers' posture to protect their livelihood is also demonstrated with regard to durable consumer goods. Board Chairman Kiyoshi Tsuyuki of Isetan Department Store says dejectedly, "Lately, the customers make up their minds on how much they are willing to spend and buy only quality products within that range. Durable goods sold well in March because of school admissions or preparations for new employment, but sales may lag from April due to price hikes."

Residential investments are stagnant because of higher interests on home loans attributable to the higher official rate, curtailment of the money supply, and high costs of land and construction materials. Unlike the days of the first oil crisis, wages are not keeping up with prices.

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"This year, the wage hike ratio in the spring struggle will be about 7 percent at best. More people will put off home construction, concerned over the rate of increase of income." (Sanwa Bank)

Nationally, department stores during this January and February were able to recover the two-digit sales figures of the preceding year. Although consumption was up during the January-March period due to strong pitches, the picture in April and coming months will depend on the movement of prices.

The climb of wholesale prices symbolizing the latest "oil inflation" subsided in the middle of March because of falling prices of imports. The direct impact of high prices for oil and foreign goods have peaked for the time being. In late March, foreign quotations for nonferrous metals and other products showed a decline and Nikkei's major commodity price index for 17 daily listings (1970=100)--a preliminary indicator of wholesale price hikes--reflected on the 28th, last weekend, a 0.79 percent drop from the day before. Provided there is no surge of foreign quotations or acceleration of cheap yen, wholesale prices should gradually decline.

However, the sharp wholesale price hikes will be reflected in consumer prices hereafter. The consumer prices for March (Tokyo) rose 7.2 percent over the corresponding month of the preceding year. Further, electric and gas rates will be hiked sharply from 1 April, followed by a similar boost in public rates as National railroad fares and cigarettes. Many businesses are contemplating passing on the full increase in high crude oil prices to their products. In the crucial yen exchange, the cheap yen mood has not been eliminated from the market, with weak trading persisting even after implementation of a yen defense policy or official rate hike for the fifth time.

Irrespective of slowdown in wholesale price hikes, consumption should dwindle quickly if consumer prices climb at a faster rate. And if there is a prolonged period of high interest rates as a result of inflation and cheap yen, residential investments will have no opportunity to rebound. As the deficit in the ordinary balance of payments is unlikely to decrease any time soon, the Bank of Japan would probably have to intercede and sell the dollars for a while to stem the decline of the yen. In such a case, foreign currency reserves may even fall short of the \$20 billion mark and spawn some anxieties over the stability of yen in the market. Should the Bank of Japan be forced to raise the official rate once again to break such a bad cycle, an excessive burden will fall on financial policies, thus dealing a heavy blow to businesses.

Even without this, a cooling-off of consumption will affect the investment decisions of businesses, and even exports, currently favorable, will encounter a great barrier known as the renewal of "trade friction." Even if exports grow further, it is possible for economic balance to crumble by reason of wider divergences among export type and domestic demand dependence type businesses or industrial fields.

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Already, divergences among businesses and industrial fields have become prominent relative to sales and funding, with the number of bankruptcies showing a gradual increase from this year. Though large-scale bankruptcies have been few, there have been "small-scale, multiple" failures centered around textiles and construction industries. In the textile sector, numerous bankruptcies have occurred in the apparel industry, due to sluggish sales because of warm winter rather than financial tightening. The construction industry would suffer a major setback from government efforts to cut back on 1980 public projects as part of its anti-inflation measures. There are increasing fears of "more bankruptcies in textile and construction-related industries" (private credit investigative agency).

Judging from such a situation, the economy in the April-June period should somehow sustain itself through momentum from the January-March period, but it may see a gradual decline in the autumn. Even NIHON KEIZAI SHIMBUNSHA's analog model, NEEDS TS II, predict a gradual decline of the real economic growth rate from 5.4 percent in the April-June period to 3.2 percent in July-September, 3.2 in October-December, and 2.5 in January-March next year.

However, the economic slump is not expected to be so acute. A moderate climb should recur from April-June period of 1981. This point decisively differs from the days of minus growth and extended adjustment period during the first oil crisis.

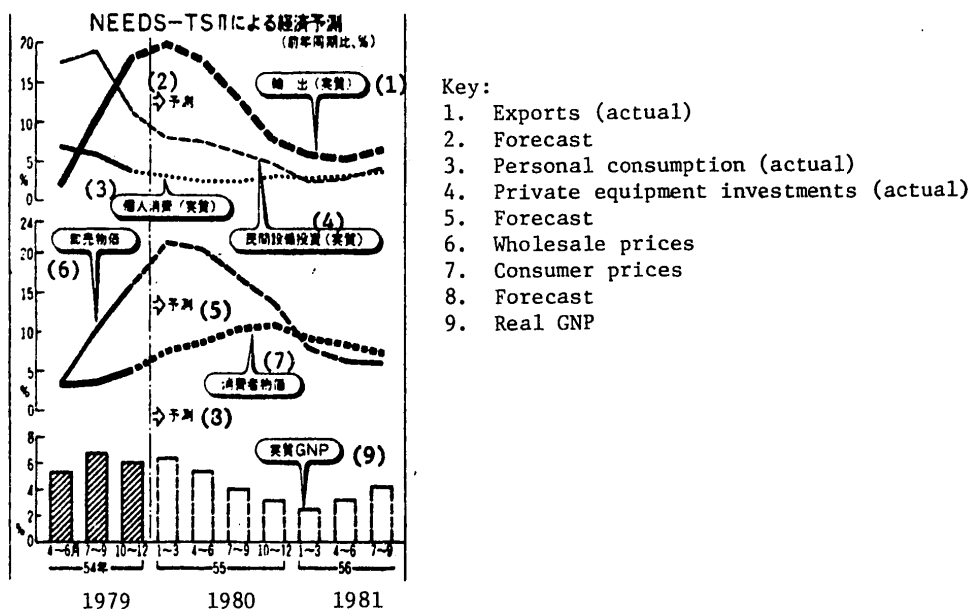
Of course, whether there will be a light symptom as "mini-recession" as called for in the scenario will depend on the development of the economy hereafter, especially as it pertains to equipment investment and exports. Will there be a stagnation of investments in the non-manufacturing industry with a high rate of bank loans owing to the effects of financial tightening? Or will "the strong base of equipment investment remain unchanged despite some braking applied by high interest rates," as Kazuo Takenaka, board chairman of National Economic Research Association says. Or, in the end, will we be forced to depend on exports because of the cooling-off of domestic demands?

Most of the answers will probably surface during the coming April-June period. If the short term prime rate (interest charged to most favored customers) and the abnormal, nearly 20 percent, high interest rates in the United States do not induce a credit crunch (excessive financial tightening), a sudden cool-off of the U.S. economy or a huge crude oil price hike by oil-producing nations or other extreme deterioration of the overseas environment, the adjustment of Japan's economy should not be so difficult. Further, if the shift of inflation from overseas to the domestic scene can be halted, the second oil crisis should be manageable and Japan's economy may be able to regain a balance through a relatively light sacrifice known as mini-recession. But if businesses should take advantage of the rampant inflation psychology and simply boost their prices, it may lead to the worst case of stagflation (economic recession and inflation running in parallel).

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The demand for oil has declined, and one view is that U.S. interest rates will hit the peak in the mid-year. Provided there is no loss of confidence by entrepreneurial management in Japan's economy this April-June, a major change of scenario should not be necessary even in the face of a few disturbing foreign factors.

Economic Forecast Through NEEDS-TS II  
(Comparison to corresponding period of preceding year in percentage)



Note: Forecast using macro-analog model of NEEDS-TS II (NIHON SHIMBUNSHA's macro-economic analysis system thru computer timesharing)

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ECONOMIC

COAL LIQUEFACTION PROJECTS SELECTED FOR FUNDING

OW080218 Tokyo THE JAPAN TIMES in English 7 May 80 p 5

[Text] Energy authorities have selected three projects for coal liquefaction research and development out of many scattered and competitive projects being pushed by Japanese companies in order to speed up such projects with governmental backing, government sources said Tuesday.

The sources close to the Agency of Natural Resources and Energy said that the agency had worked out a "long-term, basic plan" under which all the coal liquefaction projects would be screened and only the three most eligible would receive governmental assistance.

The plan, however, is expected to draw protests from the enterprises whose costly coal liquefaction projects have not been chosen for governmental backing.

All of the oil-from-coal projects aim at commercial production in the next five to 10 years.

The agency's plan calls for the follows:

1. Governmental "financial support" (in subsidies, investments or loans), totaling about 10 billion yen a year, will be given starting in fiscal 1981 to the "Kominic" (process) brown coal liquefaction project to be launched shortly in Australia's Victoria State by a group of three Japanese companies and the Australian Government.

Under a governmental agreement reached last year between Tokyo and Canberra, the project is to be realized by the Japanese trio of Kobe Steel Ltd., Mitsubishi Chemical Industries Ltd. and Nissho-Iwai Co. They are scheduled to create a joint investment company in Japan for the venture during this month and then start preparations to build in Victoria a test plant capable of processing 50 tons of brown coal a day.

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2. Under the government's sunshine project top priority will be given to a domestic coal liquefaction project being pushed by a group of 21 Japanese companies led by Sumitomo Metal Industries Ltd. The group is now building a demonstration plant and will shortly create a joint investment company.

3. Another group of Japanese companies, led by Mitsui Mining Co., to join a current U.S.-West German-Japanese coal liquefaction project will be advised to form a more multiinterest group. This would be done by the participation of Nippon Steel Chemical Co. and some oil refining and engineering enterprises in ownership of the group's Mitsui Coal Liquefaction Co.

The world's most ambitious of its kind, the project launched last year by U.S. and West Germany interests in the form of a pilot plant construction in West Virginia, is to attain a daily output of 20,000 tons by 1985.

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SCIENCE AND TECHNOLOGY

DEVELOPMENT BANK URGES LARGE RISE IN R&D OUTLAYS

Tokyo NIKKAN KOGYO SHIMBUN in Japanese 7 Feb 80 p 3

[Text] The Japan Development Bank (Takatomo Watanabe, president) has released the results of its research in a survey report entitled, "New Response Desired in Private Research and Development Investment." The report argues that in order to maintain the postulated average annual growth of 5.5 percent (after adjustments) through JFY 1985, the last year of the new economic seven-year plan, it will be necessary to increase R&D investment from the current level of about 2.1 percent of national income to 3.1 percent (2.5 percent of GNP). The report pointed out that outlays for private research and development have a greater effect in evoking demand than public works investment, in both the short and the long term, and further stressed that the role of R&D investment is even more significant in furthering reform of the industrial and economic structure. In recent years there has been a continuing clamor about the importance of R&D investment, but research on the question using a macro-economic approach of view is unusual. Taken as a whole, the report is expected to create quite a stir wherever there is discussion on how the creation of Japan's own independent technology has become a requirement of the times, and wherever fiscal reconstruction through large-scale issues of government bonds is under consideration.

The Development Bank stated that the three purposes of its research were to determine (1) the characteristics and current state of R&D investment; (2) why increased R&D investment is necessary and effective; and (3) issues in promoting R&D investment. The report analyzed such questions as Japan's postwar technological level, reached as it was principally through the introduction of foreign technology, and what kind of effect technological development has on the earnings of business enterprises. It further discussed the necessity of establishing our own development technology, and dealt with the place that R&D investment should have in future economic policy.

The three elements which go to make up the economic growth rate are capital, labor and technology. In order to attain an average annual growth rate of 5.5 percent, as is stipulated in the new economic seven-year plan to be necessary for stable growth, about 2.5 percent of GNP (or 3.1 percent

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of national income) has to be devoted to R&D. But in recent years Japan's R&D investment has lagged at the level of 2.1 percent of national income, and the welfare of the national economy requires increased R&D outlays.

Until now the mainspring of policies based on Keynesian economics has been fiscal expenditure, particularly public works investment. But when the same funds are turned into private R&D investment by some such means as subsidies, the effect on demand creation is much greater. For example, if we assume that the government spends 10 billion yen to develop new electronic computers, this industry being on the leading edge of technology, and that the same amount is used for public investment, then using the input-output table to arrive at final figures for demand and production as induced by these investments, we find that R&D investment has a much greater effect than do outlays for public enterprises or railroad construction, even bearing comparison with electric power investment, itself the broadest in its effect on the economy.

So far as the breadth of the influence on the economy is concerned, investment in public works stimulates raw materials industries like steel, cement, and especially construction and civil engineering, while the influence of R&D investment spreads markedly to information-intensive industries like electrical machinery, general machinery and services. Such investment becomes then a requirement of the times, as we confront a more educated society, and our nation is pressed to absorb an increasingly educated work force. Moreover, while the effects of public investment are comparatively short-term, in contrast R&D investment not only takes effect over both the short and the long term, but also strongly influences social structure, and is further desirable from the standpoint of reforming the industrial and economic structures.

The technology now used in Japan was introduced from those European and American countries which have today become our export markets. Since we bore neither the cost nor the risk of technological development, but simply harvested the results, the judgment that we have been getting a free ride has been gaining in force. Moreover, the introduction of foreign technology has come to depend on arrangements like cross-licensing contracts, with one-way requisition more difficult than before. For these reasons too, it is necessary to enhance technological development and establish independent development of technology.

That technological development contributes to the growth of enterprises can be understood intuitively, but it is difficult to prove. However, if we look at the evidence in the American case, then excluding the steel and petroleum industries, there is a difference in growth rate of up to 10 percent between those enterprises innovating in technology and those not. It is also possible to prove the assertion by looking at our own country and comparing other companies in the same industry with companies like Sony, whose Trinitron TV met with such success, or Honda, whose research developed the CVCC engine. It is clear that technological change is a guarantee of an enterprises' earnings.

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According to the results of a 1980 study involving a questionnaire directed to specialists in the area of manufactured goods, industries whose average level is today below that of Europe and America, and will remain so after 5 years, include airplane manufacture and crude oil and natural gas production. On the other hand, industries which are today equal to the highest world standard but are expected to decline over the next 5 years include automobiles, ordinary merchant ships, railroad cars and system, and ceramics. But cameras, watches and aluminum products are expected to maintain their preeminence even after 5 years. Finally, those industries whose level is expected to rise over the next 5 years include electric power equipment, synthetic resins, film, natural fibers, motors, boilers, industrial chemicals, dyes and cosmetics.

Thus Japan's technological level is rising somewhat above that of Europe and America, a situation which derives in great part from the importation of technology from these same advanced nations. If we look then at our technology exports, we see that in JFY 1977 we exported an amount worth 6 billion yen to Indonesia, 6 billion yen to South Korea, 4.8 billion yen to Taiwan, and 6.2 billion yen to Brazil. As regards the technological portion of our foreign trade balance, in 1975 our steel industry moved into the black and thereafter continued to improve its position. And if we consider only new contracts, [the technology--trade balance of] the whole of Japanese industry has been in the black since JFY 1972. However overseas customers for our technological exports are principally semi-developed nations, and it cannot be said that our level of innovative technological development has caught up with that of Europe and the United States.

In Japan it is the large and medium-size enterprises which bear the burden of technological development. Many of these have sales in excess of 10 billion yen, which contrasts with the tendency in such nations as the United States, Canada and France. The reason for this is that our first-class engineers choose to work in large companies, while for their part large companies have a greater ability than small ones to diversify into many areas. However there was not a single case of an innovative technical advance in Japan before 1958, and only since 1962 has our share finally reached the modest level of 10 percent.

In JFY 1977 Japan's expenditures on research and development were at the level of 2.1 percent of national income, a low figure just below France's 2.02 percent. If we include expenditures on defense research, the figures for the United States and the Soviet Union are respectively 2.53 and 4.52 percent. If we exclude defense research, Japan's figure becomes the second highest, after West Germany. Yet if we compare the government's portion of R&D funding to that of other nations, Japan's is extremely low; 27.4 percent as opposed to 50.5 percent in the United States, 51.7 percent in the United Kingdom, 48.5 percent in West Germany, and 56.7 percent in France. Added to this is the fact that according to the JFY 1977 budget, a little over 90 percent of government R&D expenditures were

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directed to universities, quasi-government corporations and research institutes, with very little left over to subsidize R&D in private enterprise. In the 1979 general budget only 0.3 percent of all subsidies went to subsidize private R&D.

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SCIENCE AND TECHNOLOGY

LARGE SCALE ROBOT DEVELOPMENT

Tokyo NIKKAN KOGYO SHIMBUN in Japanese 5 Feb 80 p 8

[Article: "Toyota to Acquire 720 Units"]

[Text] According to an informed source, it has become clear that Toyota Motor Company, Ltd. (President Eijiro Toyota) will obtain the very large number of 720 robots over the next 2-3 years from robot makers such as Kawasaki Heavy Industries in order to conserve labor.

Toyota plans are for a 3.5 million automobile a year capacity, and it is presently constructing a second passenger automobile plant in the form of the Tahara Plant at Tahara-cho, Akumi-gun, Shizuoka-ken. It is said that the greater part of these new robots to be acquired will be utilized in this new plant according to the source. At the same time, this plant is considered to be the test case for the production system in which manpower is suppressed to the extreme and which will be used in the event of entry into American territory. This second plant scheduled to be completed in 1981 will bear watching as Toyota's strategic plant for the world small car war of the 1980s.

This new plant on which Toyota has initiated construction is an integrated assembly plant which employs a facility which performs pressing, painting, welding, and assembling, and its initial capacity will be 10,000 cars per month.

Toyota will not limit these new lines simply for the production of specific car types but has designed these lines to accomodate the production of any type of automobile when the occasion requires.

In the design of this new plant, the large automated machines which have been used in the past were found not to have the flexibility to accomodate model changes as a result of which it was decided to use small type machines which are more readily adaptable to changes.

This company has embarked on an all out drive to conserve manpower requirements as much as possible, and this seems to be the rationale for their large volume order of robots at this time.

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According to informed sources, Toyota plans to use this second plant as a test case for Toyota's plan to locate a plant in the United States. Since the quality of American labor is lower than that of Japanese labor, there is need to plan for expanded production with the minimum of labor, and an integrated assembly line will be necessary to this end.

Because of this background, Toyota is planning to use robots in all the processes including pressing, painting, welding, and assembling, and this present order for 720 robots is undoubtedly preparation for Toyota to open a plant in the United States.

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